

OFFICE OF THE
LEGISLATIVE
FISCAL
ANALYST

JONATHAN C. BALL
DIRECTOR

**MEMORANDUM FOR
EXECUTIVE APPROPRIATIONS COMMITTEE**

FROM: Richard Amon, Fiscal Analyst
DATE: November 4, 2008
SUBJECT: Lease Revenue Bonds Question Follow-up

In the October 14, 2008 Executive Appropriations Committee meeting a question was asked regarding the structure and payment of State Building Ownership Authority (SBOA) lease revenue bonds. The committee asked the Analyst to provide an example to illustrate the answer.

Question: Why do agency lease payments differ from SBOA bond payments (resulting in surplus or deficit balances)?

Answer: SBOA bonds are structured to have as level payments as possible; however, the structure of a tax-exempt bond does not provide a smooth amortization of principal like a residential home mortgage.

Three structural characteristics of bonds prevent an exactly smooth debt service:

1. Bonds are issued in \$5,000 increments and therefore principal payments must be made in \$5,000 increments (rather than uneven principal payments like a mortgage).
2. Each maturity date has its own coupon rate which increases with time unlike a home mortgage that has the same interest rate for the full term of the loan.
3. The first principal payment is not usually made until one to two years after the issuance. Capitalized interest payments from bond proceeds pay interest charges during that time until construction is complete and an agency can take occupancy.

An example is the 2003A series of SBOA lease revenue bonds in which the State issued \$22,725,000 of bonds to refinance a State Board of Education building from the 93B series and to construct a liquor store in Tooele, a courthouse in West Jordan, and a drivers' license building in West Valley.

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Attachment A.1 shows the amounts, maturities, and coupon rates of the bonds associated with the 2003A Series. Interest rates vary by date of maturity. The bonds were issued in December of 2003. Note that the first principal amount (\$115,000) matures on May 15, 2005 and that this represents twenty-three \$5,000 bonds. Also note that the interest rate for this first principal payment is 2% and that subsequent interest rates increase as the maturity dates increase.

Attachment A.2 shows the debt service schedule as contained in the official statement. The last column shows the fiscal year total. Note that beginning FY 2006 the debt service is fairly level at approximately \$2 million until FY 2014 when the refinanced 93B building is paid off. The FY 2004 and 2005 debt service is substantially less because there is no principal payment until FY 2006; capitalized interest pays these payments.

In order to show the debt service attributable to the buildings constructed with the proceeds from the 2003A SBOA bonds, the Analyst includes Attachment B, which breaks out the debt service schedule into four parts: the West Valley drivers' license building, the West Jordan courthouse, the Tooele Alcoholic Beverage Control (ABC) liquor store, and the refinanced State Board of Education building from the 93B bond series.

Finally, Attachment C shows how the lease payments for the buildings compare to the debt service schedule for the bonds. For example, the West Valley drivers' license building required \$1.3 million to construct and a debt service of \$1.9 million over 20 years. DFCM calculated the level lease payment for this building to be \$97,624 annually or \$24,406 each quarter. The lease payment in FY 2005 was \$73,218 (three payments of \$24,406 – three quarters) because capitalized interest paid the debt service for the first quarter of the year. The lease payment sometimes covers more than the debt service requirement for the fiscal year or sometimes less; but in total it accounts for all the debt service for that portion of the bond. The other buildings have similar debt and lease structures.

Series 2003
\$22,725,000, Lease Revenue and Refunding Bonds
(State Facilities Master Lease Program)

Dated: Date of Delivery²

Due: May 15, as shown below

Due May 15	CUSIP 917547	Principal Amount	Interest Rate	Yield/ Price	Due May 15	CUSIP 917547	Principal Amount	Interest Rate	Yield/ Price
2005....	PP 0	\$ 115,000	2.00%	1.35%	2016....	QA 2	\$ 900,000	4.00%	4.07%
2006....	PQ 8	1,125,000	2.00	1.69	2017....	QB 0	940,000	4.10	4.17
2007....	PR 6	1,180,000	2.25	2.08	2018....	QC 8	980,000	4.20	4.27
2008....	PS 4	1,210,000	2.75	2.44	2019....	QD 6	1,020,000	4.20	4.46
2009....	PT 2	1,240,000	3.00	2.70	2020....	QE 4	1,065,000	4.25	4.55
2010....	PU 9	1,275,000	3.25	2.97	2021....	QF 1	1,110,000	4.375	4.63
2011....	PV 7	1,325,000	3.60	3.25	2022....	QG 9	1,160,000	4.40	4.70
2012....	PW 5	1,375,000	5.00	3.53	2023....	QH 7	1,210,000	4.50	4.77
2013....	PX 3	1,440,000	4.00	3.67	2024....	QJ 3	1,265,000	4.50	4.82
2014....	PY 1	835,000	4.00	3.82	2025....	QK 0	1,080,000	5.00	4.75
2015....	PZ 8	875,000	4.00	3.94					

² The anticipated date of delivery is Tuesday, December 30, 2003.

Attachment A.2 - Debt Service Schedule from Official Statement

Debt Service Through Base Rental Payment Schedule

Due Date (Base Rental Payment)	The 2003 Bonds		Period Total	Fiscal Total
	Principal	Interest		
May 1, 2004.....	\$ 0.00	\$ 327,934.69	\$ 327,934.69	\$ 327,934.69
November 1, 2004	0.00	437,246.25	437,246.25	
May 1, 2005.....	115,000.00	437,246.25	552,246.25	989,492.50
November 1, 2005	0.00	436,096.25	436,096.25	
May 1, 2006.....	1,125,000.00	436,096.25	1,561,096.25	1,997,192.50
November 1, 2006	0.00	424,846.25	424,846.25	
May 1, 2007.....	1,180,000.00	424,846.25	1,604,846.25	2,029,692.50
November 1, 2007	0.00	411,571.25	411,571.25	
May 1, 2008.....	1,210,000.00	411,571.25	1,621,571.25	2,033,142.50
November 1, 2008	0.00	394,933.75	394,933.75	
May 1, 2009.....	1,240,000.00	394,933.75	1,634,933.75	2,029,867.50
November 1, 2009	0.00	376,333.75	376,333.75	
May 1, 2010.....	1,275,000.00	376,333.75	1,651,333.75	2,027,667.50
November 1, 2010	0.00	355,615.00	355,615.00	
May 1, 2011.....	1,325,000.00	355,615.00	1,680,615.00	2,036,230.00
November 1, 2011	0.00	331,765.00	331,765.00	
May 1, 2012.....	1,375,000.00	331,765.00	1,706,765.00	2,038,530.00
November 1, 2012	0.00	297,390.00	297,390.00	
May 1, 2013.....	1,440,000.00	297,390.00	1,737,390.00	2,034,780.00
November 1, 2013	0.00	268,590.00	268,590.00	
May 1, 2014.....	835,000.00	268,590.00	1,103,590.00	1,372,180.00
November 1, 2014	0.00	251,890.00	251,890.00	
May 1, 2015.....	875,000.00	251,890.00	1,126,890.00	1,378,780.00
November 1, 2015	0.00	234,390.00	234,390.00	
May 1, 2016.....	900,000.00	234,390.00	1,134,390.00	1,368,780.00
November 1, 2016	0.00	216,390.00	216,390.00	
May 1, 2017.....	940,000.00	216,390.00	1,156,390.00	1,372,780.00
November 1, 2017	0.00	197,120.00	197,120.00	
May 1, 2018.....	980,000.00	197,120.00	1,177,120.00	1,374,240.00
November 1, 2018	0.00	176,540.00	176,540.00	
May 1, 2019.....	1,020,000.00	176,540.00	1,196,540.00	1,373,080.00
November 1, 2019	0.00	155,120.00	155,120.00	
May 1, 2020.....	1,065,000.00	155,120.00	1,220,120.00	1,375,240.00
November 1, 2020	0.00	132,488.75	132,488.75	
May 1, 2021.....	1,110,000.00	132,488.75	1,242,488.75	1,374,977.50
November 1, 2021	0.00	108,207.50	108,207.50	
May 1, 2022.....	1,160,000.00	108,207.50	1,268,207.50	1,376,415.00
November 1, 2022	0.00	82,687.50	82,687.50	
May 1, 2023.....	1,210,000.00	82,687.50	1,292,687.50	1,375,375.00
November 1, 2023	0.00	55,462.50	55,462.50	
May 1, 2024.....	1,265,000.00	55,462.50	1,320,462.50	1,375,925.00
November 1, 2024	0.00	27,000.00	27,000.00	
May 1, 2025.....	<u>1,080,000.00</u>	<u>27,000.00</u>	<u>1,107,000.00</u>	1,134,000.00
Totals.....	<u>\$22,725,000.00</u>	<u>\$11,071,302.19</u>	<u>\$33,796,302.19</u>	

See “STATE BUILDING OWNERSHIP AUTHORITY—Debt Issuance” below.

Book-Entry System

DTC will act as securities depository for the 2003 Bonds. The 2003 Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered 2003 Bond certificate will be issued for each issue of the 2003 Bonds, each in the aggregate principal amount of such

Attachment B - Debt Service for 2003A SBOA Lease Revenue Bonds by Building with Coupon Rates

Date	Total 2003A Revenue Bonds - 22.725M					WV Driver License - \$1.305M					W. Jordan Courts - \$15.06M					Tooele ABC - \$1.905M					Board of Ed 93B Refund - \$4.455M				
	Principal	Coupon	Interest	P+I Total		Principal	Coupon	Interest	Total P+I		Principal	Coupon	Interest	Total P+I		Principal	Coupon	Interest	Total P+I		Principal	Coupon	Interest	Total P+I	
5/15/2004			327,935	327,935				18,878	18,878	*			226,338	226,338	*			27,580	27,580	*			55,138	55,138	*
11/15/2004			437,246	437,246				25,171	25,171	†			301,784	301,784	‡			36,774	36,774	‡			73,518	73,518	
5/15/2005	115,000	2.00%	437,246	552,246		45,000	2.00%	25,171	70,171		-	2.00%	301,784	301,784		70,000	2.00%	36,774	106,774		-	2.00%	73,518	73,518	
11/15/2005			436,096	436,096				24,721	24,721				301,784	301,784				36,074	36,074				73,518	73,518	
5/15/2006	1,125,000	2.00%	436,096	1,561,096		50,000	2.00%	24,721	74,721		530,000	2.00%	301,784	831,784		70,000	2.00%	36,074	106,074		475,000	2.00%	73,518	548,518	
11/15/2006			424,846	424,846				24,221	24,221				296,484	296,484				35,374	35,374				68,768	68,768	
5/15/2007	1,180,000	2.25%	424,846	1,604,846		50,000	2.25%	24,221	74,221		540,000	2.25%	296,484	836,484		70,000	2.25%	35,374	105,374		520,000	2.25%	68,768	588,768	
11/15/2007			411,571	411,571				23,659	23,659				290,409	290,409				34,586	34,586				62,918	62,918	
5/15/2008	1,210,000	2.75%	411,571	1,621,571		50,000	2.75%	23,659	73,659		555,000	2.75%	290,409	845,409		75,000	2.75%	34,586	109,586		530,000	2.75%	62,918	592,918	
11/15/2008			394,934	394,934				22,971	22,971				282,778	282,778				33,555	33,555				55,630	55,630	
5/15/2009	1,240,000	3.00%	394,934	1,634,934		50,000	3.00%	22,971	72,971		570,000	3.00%	282,778	852,778		75,000	3.00%	33,555	108,555		545,000	3.00%	55,630	600,630	
11/15/2009			376,334	376,334				22,221	22,221				274,228	274,228				32,430	32,430				47,455	47,455	
5/15/2010	1,275,000	3.25%	376,334	1,651,334		55,000	3.25%	22,221	77,221		585,000	3.25%	274,228	859,228		75,000	3.25%	32,430	107,430		560,000	3.25%	47,455	607,455	
11/15/2010			355,615	355,615				21,328	21,328				264,721	264,721				31,211	31,211				38,355	38,355	
5/15/2011	1,325,000	3.60%	355,615	1,680,615		55,000	3.60%	21,328	76,328		605,000	3.60%	264,721	869,721		80,000	3.60%	31,211	111,211		585,000	3.60%	38,355	623,355	
11/15/2011			331,765	331,765				20,338	20,338				253,831	253,831				29,771	29,771				27,825	27,825	
5/15/2012	1,375,000	5.00%	331,765	1,706,765		55,000	5.00%	20,338	75,338		630,000	5.00%	253,831	883,831		85,000	5.00%	29,771	114,771		605,000	5.00%	27,825	632,825	
11/15/2012			297,390	297,390				18,963	18,963				238,081	238,081				27,646	27,646				12,700	12,700	
5/15/2013	1,440,000	4.00%	297,390	1,737,390		60,000	4.00%	18,963	78,963		660,000	4.00%	238,081	898,081		85,000	4.00%	27,646	112,646		635,000	4.00%	12,700	647,700	
11/15/2013			268,590	268,590				17,763	17,763				224,881	224,881				25,946	25,946				-	-	
5/15/2014	835,000	4.00%	268,590	1,103,590		60,000	4.00%	17,763	77,763		685,000	4.00%	224,881	909,881		90,000	4.00%	25,946	115,946			4.00%	-	0	
11/15/2014			251,890	251,890				16,563	16,563				211,181	211,181				24,146	24,146				-	-	
5/15/2015	875,000	4.00%	251,890	1,126,890		65,000	4.00%	16,563	81,563		715,000	4.00%	211,181	926,181		95,000	4.00%	24,146	119,146			4.00%	-	0	
11/15/2015			234,390	234,390				15,263	15,263				196,881	196,881				22,246	22,246				-	-	
5/15/2016	900,000	4.00%	234,390	1,134,390		65,000	4.00%	15,263	80,263		740,000	4.00%	196,881	936,881		95,000	4.00%	22,246	117,246			4.00%	-	0	
11/15/2016			216,390	216,390				13,963	13,963				182,081	182,081				20,346	20,346				-	-	
5/15/2017	940,000	4.10%	216,390	1,156,390		70,000	4.10%	13,963	83,963		770,000	4.10%	182,081	952,081		100,000	4.10%	20,346	120,346			4.10%	-	0	
11/15/2017			197,120	197,120				12,528	12,528				166,296	166,296				18,296	18,296				-	-	
5/15/2018	980,000	4.20%	197,120	1,177,120		70,000	4.20%	12,528	82,528		805,000	4.20%	166,296	971,296		105,000	4.20%	18,296	123,296			4.20%	-	0	
11/15/2018			176,540	176,540				11,058	11,058				149,391	149,391				16,091	16,091				-	-	
5/15/2019	1,020,000	4.20%	176,540	1,196,540		75,000	4.20%	11,058	86,058		835,000	4.20%	149,391	984,391		110,000	4.20%	16,091	126,091			4.20%	-	0	
11/15/2019			155,120	155,120				9,483	9,483				131,856	131,856				13,781	13,781				-	-	
5/15/2020	1,065,000	4.25%	155,120	1,220,120		80,000	4.25%	9,483	89,483		870,000	4.25%	131,856	1,001,856		115,000	4.25%	13,781	128,781			4.25%	-	0	
11/15/2020			132,489	132,489				7,783	7,783				113,369	113,369				11,338	11,338				-	-	
5/15/2021	1,110,000	4.38%	132,489	1,242,489		80,000	4.38%	7,783	87,783		910,000	4.38%	113,369	1,023,369		120,000	4.38%	11,338	131,338			4.38%	-	0	
11/15/2021			108,208	108,208				6,033	6,033				93,463	93,463				8,713	8,713				-	-	
5/15/2022	1,160,000	4.40%	108,208	1,268,208		85,000	4.40%	6,033	91,033		950,000	4.40%	93,463	1,043,463		125,000	4.40%	8,713	133,713			4.40%	-	0	
11/15/2022			82,688	82,688				4,163	4,163				72,563	72,563				5,963	5,963				-	-	
5/15/2023	1,210,000	4.50%	82,688	1,292,688		90,000	4.50%	4,163	94,163		990,000	4.50%	72,563	1,062,563		130,000	4.50%	5,963	135,963			4.50%	-	0	
11/15/2023			55,463	55,463				2,138	2,138				50,288	50,288				3,038	3,038				-	-	
5/15/2024	1,265,000	4.50%	55,463	1,320,463		95,000	4.50%	2,138	97,138		1,035,000	4.50%	50,288	1,085,288		135,000	4.50%	3,038	138,038			4.50%	-	0	
11/15/2024			27,000	27,000				-	0				27,000	27,000				-	0				-	-	
5/15/2025	1,080,000	5.00%	27,000	1,107,000			5.00%	-	0		1,080,000	5.00%	27,000	1,107,000			5.00%	-	0			5.00%	-	0	
Total	22,725,000		11,071,303	33,796,303		1,305,000		659,528	1,964,529		15,060,000		8,473,035	23,533,036		1,905,000		962,230	2,867,231		4,455,000		976,508	5,431,509	

* Capitalized Interest payment of \$18,878 in FY 04

† Capitalized Interest payment of \$25,171 in FY 05

* Capitalized interest payment of \$226,338 in FY04

† Capitalized interest payment of \$603,568 in FY05

‡ Capitalized interest payment of \$100,595 in FY06

* Capitalized Interest payment of \$27,580 in FY 04

† Capitalized Interest payment of \$12,258 in FY 05

* Existing debt service payment of \$389,025 in FY04

Attachment C - Fiscal Year Debt Service for 2003A Lease Revenue Bonds Compared to Lease Payments

Courts	<u>Principal</u>	<u>Interest</u>	<u>Fees</u>	<u>Total</u>	<u>Lease</u>	<u>Difference</u>
FY 2004	-	-	-	-	*	-
FY 2005	-	-	-	†	-	-
FY 2006	530,000	502,973	1,100	1,034,073	‡	97,154
FY 2007	540,000	592,968	1,100	1,134,068	1,131,227	(2,841)
FY 2008	555,000	580,818	1,100	1,136,918	1,131,227	(5,691)
FY 2009	570,000	565,555	1,100	1,136,655	1,131,227	(5,428)
FY 2010	585,000	548,455	1,100	1,134,555	1,131,227	(3,328)
FY 2011	605,000	529,443	1,100	1,135,543	1,131,227	(4,316)
FY 2012	630,000	507,663	1,100	1,138,763	1,131,227	(7,536)
FY 2013	660,000	476,163	1,100	1,137,263	1,131,227	(6,036)
FY 2014	685,000	449,763	1,100	1,135,863	1,131,227	(4,636)
FY 2015	715,000	422,363	1,100	1,138,463	1,131,227	(7,236)
FY 2016	740,000	393,763	1,100	1,134,863	1,131,227	(3,636)
FY 2017	770,000	364,163	1,100	1,135,263	1,131,227	(4,036)
FY 2018	805,000	332,593	1,100	1,138,693	1,131,227	(7,466)
FY 2019	835,000	298,783	1,100	1,134,883	1,131,227	(3,656)
FY 2020	870,000	263,713	1,100	1,134,813	1,131,227	(3,586)
FY 2021	910,000	226,738	1,100	1,137,838	1,131,227	(6,611)
FY 2022	950,000	186,925	1,100	1,138,025	1,131,227	(6,798)
FY 2023	990,000	145,125	1,100	1,136,225	1,131,227	(4,998)
FY 2024	1,035,000	100,575	1,100	1,136,675	1,131,227	(5,448)
FY 2025	1,080,000	54,000	1,100	1,135,100	1,131,227	(3,873)
Total	15,060,000	7,542,535	22,000	22,624,535	22,624,535	(0)

* Capitalized interest payment of \$226,338 in FY04

† Capitalized interest payment of \$603,568 in FY05

‡ Capitalized interest payment of \$100,595 in FY06

WV DL	<u>Principal</u>	<u>Interest</u>	<u>Fees</u>	<u>Total</u>	<u>Lease</u>	<u>Difference</u>
FY 2004	-	-	-	-	*	-
FY 2005	45,000	25,171	400	70,171	†	3,047
FY 2006	50,000	49,443	400	99,843	97,624	(2,218)
FY 2007	50,000	48,443	400	98,843	97,624	(1,218)
FY 2008	50,000	47,318	400	97,718	97,624	(93)
FY 2009	50,000	45,943	400	96,343	97,624	1,282
FY 2010	55,000	44,443	400	99,843	97,624	(2,218)
FY 2011	55,000	42,655	400	98,055	97,624	(431)
FY 2012	55,000	40,675	400	96,075	97,624	1,549
FY 2013	60,000	37,925	400	98,325	97,624	(701)
FY 2014	60,000	35,525	400	95,925	97,624	1,699
FY 2015	65,000	33,125	400	98,525	97,624	(901)
FY 2016	65,000	30,525	400	95,925	97,624	1,699
FY 2017	70,000	27,925	400	98,325	97,624	(701)
FY 2018	70,000	25,055	400	95,455	97,624	2,169
FY 2019	75,000	22,115	400	97,515	97,624	109
FY 2020	80,000	18,965	400	99,365	97,624	(1,741)
FY 2021	80,000	15,565	400	95,965	97,624	1,659
FY 2022	85,000	12,065	400	97,465	97,624	159
FY 2023	90,000	8,325	400	98,725	97,624	(1,101)
FY 2024	95,000	4,275	400	99,675	97,624	(2,051)
FY 2025	-	-	-	-	-	-
Total	1,305,000	615,479	8,000	1,928,079	1,928,079	(0)

* Capitalized Interest payment of \$18,878 in FY 04

† Capitalized Interest payment of \$25,171 and 3/4 lease payment in FY 05

ABC	<u>Principal</u>	<u>Interest</u>	<u>Fees</u>	<u>Total</u>	<u>Lease</u>	<u>Difference</u>
FY 2004	-	-	-	-	*	-
FY 2005	70,000	61,290	500	131,790	†	10,080
FY 2006	70,000	72,148	500	142,648	141,870	(778)
FY 2007	70,000	70,748	500	141,248	141,870	622
FY 2008	75,000	69,173	500	144,673	141,870	(2,803)
FY 2009	75,000	67,110	500	142,610	141,870	(740)
FY 2010	75,000	64,860	500	140,360	141,870	1,510
FY 2011	80,000	62,423	500	142,923	141,870	(1,053)
FY 2012	85,000	59,543	500	145,043	141,870	(3,173)
FY 2013	85,000	55,293	500	140,793	141,870	1,077
FY 2014	90,000	51,893	500	142,393	141,870	(523)
FY 2015	95,000	48,293	500	143,793	141,870	(1,923)
FY 2016	95,000	44,493	500	139,993	141,870	1,877
FY 2017	100,000	40,693	500	141,193	141,870	677
FY 2018	105,000	36,593	500	142,093	141,870	(223)
FY 2019	110,000	32,183	500	142,683	141,870	(813)
FY 2020	115,000	27,563	500	143,063	141,870	(1,193)
FY 2021	120,000	22,675	500	143,175	141,870	(1,305)
FY 2022	125,000	17,425	500	142,925	141,870	(1,055)
FY 2023	130,000	11,925	500	142,425	141,870	(555)
FY 2024	135,000	6,075	500	141,575	141,870	295
FY 2025	-	-	-	-	-	-
Total	1,905,000	922,392		2,837,392	2,837,392	0

* Capitalized Interest payment of \$27,580 in FY 04

† Capitalized Interest payment of \$12,258 in FY 05